

consultations

To assist and inform the diplomatic community

Prelude to Tax Season

April 15th is an important—and often dreaded—day in the United States. With the annual frenzy of taxpayers scrambling to complete forms and file their returns on time, few need to be reminded that this is the day federal, state, and local income taxes are due.

How does April 15th affect the diplomatic community? The following information will attempt to clarify federal income tax issues specific to the diplomatic community. State and local tax issues, however, will not be addressed. OFM encourages everyone to research these taxes on their own to ensure compliance.

Who must pay income taxes?

- All U.S. citizens
- Resident aliens
- Anyone classified as PA-1 or PA-2 (Permanently assigned A-1 or A-2 visa holders)
- Any family member of an official who works outside the embassy or consulate

What income is tax exempt? Any income earned by an accredited individual through his/her official duties is exempt from taxation under the terms of the Vienna Conventions. This includes investment income earned outside the United States.

What income is NOT exempt? Any income earned by an accredited individual outside his/her official duties and within the United States is subject to

both federal and state taxation. Examples of this include, but are not limited to income from mutual funds, stocks, other investments and winnings from lotteries.

How to file? Federal income tax can be filed electronically via the Internet, or through the mail.

Where to get forms? Most public libraries and U.S. Post Offices have federal tax forms, which come with specific instructions. IRS forms and publications are available at its Web site (www.irs.gov).

Where to go for help? The IRS Web site contains a great deal of information on tax-related issues. A number of commercial agencies also exist that assist taxpayers with completing and filing tax returns.

What if my home country has a special treaty about taxes? In addition to the Vienna Conventions, many countries have bilateral treaties with the United States regarding the payment of federal and state taxes.

The full text of the treaties between the United States and the following countries can be found at www.irs.gov/prod/ind_info/treaties.html: Austria, Belgium, Canada, China, France, Germany, Israel, Italy, Japan, Netherlands, Portugal, Spain, Switzerland, Russia and the United Kingdom. ●

Need to file taxes but do not have an SSN? An ITIN is the answer.

An ITIN is an Individual Taxpayers Identification Number. Nine-digits long, like an SSN, it starts with a nine and is issued for nonresident and resident aliens, their spouses and dependents.

ITINs are used for FEDERAL INCOME TAX PURPOSES ONLY. They replace the temporary IRS numbers (issued by the IRS) that are no longer valid. Anyone required to file U.S. income taxes who is currently using a temporary IRS number must obtain an ITIN.

One can get an ITIN by completing an IRS Form W-7, available on the IRS Web site (www.irs.gov). It takes approximately six to eight weeks to receive an ITIN by mail. Quicker options are detailed on the W-7. If an extension on filing is necessary, complete IRS Form 4868.

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OFM Procedure

U.S. Tax-Exemption Cards

Being a diplomat has its privileges. There is the world travel, the ever changing environments, the people and the lifetime of unique experiences. For many there is also the tax-exempt status.

Tax-exemption privileges vary within the diplomatic community. Why? The preamble of Vienna Convention on Diplomatic Relations offers an answer — and it is not as complicated as one might think, it states,

[T]he purposes of such privilege and immunities is not to benefit individuals but to ensure the efficient performance of the functions of diplomatic missions as representing states,

The U.S. Government attempts to conduct all diplomatic activities tax-free to the greatest extent possible, as the conduct of diplomacy should not be a source of revenue. However, it recognizes that in carrying out such policies, it is appropriate to apply the practice of reciprocity on a country-by-country basis, and to focus that reciprocity on the benefits and privileges of U.S. personnel.

The Office of Foreign Missions issues U.S. tax-exemption cards to qualified missions and their members. Viewed as a privilege by the U.S. Government, these cards can be revoked or modified at anytime in response to a variety of factors, including changes in the level of benefits and privi-

leges accorded the U.S. mission and its members in any host country. In this manner minimum purchase requirements and exclusion limits can also be set for reasons of reciprocity. In addition, excluded categories may limit tax-exemption to or from certain goods or services.

APPLICATION:

Individual members of missions may apply for a driver license and a U.S. tax-exemption card concurrently via the DS-1972 form. OFM will accept an application ONLY from individuals fully accredited by the Office of Protocol.

Dependent children are eligible for cards until their 21st birthday, unless they are attending college (justified students), in which case the card will be issued on a yearly basis until they are 23 years old. Eligibility will end on their 23rd birthday.

Mission cards are provided ONLY to employees of the mission. A separate application must be submitted for each authorized user of a mission card.

REPLACEMENTS:

If a card is lost or stolen, OFM must be notified by way of a diplomatic note with the details of the card's disappearance. Replacement tax-exemption cards are issued with the same expiration date as the original unless that date is within two months. Replacements will be issued AFTER 30 days from the date that OFM is notified of the loss.

Frequently Asked Questions

Q: Are there tours of the State Department? If so when are they given and what do they include?

A: Any assignment in Washington, D.C. is not complete without a tour of the Department of State's diplomatic reception rooms. Unlike the more functional office space below, the diplomatic reception rooms on the eighth floor of 2201 C Street are filled with historical significance and formal beauty. The museum-quality furnishings date between 1750 and 1825 and include period pieces from the homes of many of the country's forefathers. With the exception of the Portuguese chandeliers and the Asian carpets, everything exhibited was made in America. In 1990, the collection was estimated to be worth more than \$90 million. It has been gathered and preserved entirely through private donations: No U.S. taxpayer money has been used.

Tours are free and are offered by reservation only at 9:30 a.m., 10:30 a.m., and 2:45 p.m., Monday through Friday, with the exception of federal holidays. These tours are recommended for children over the age of 12 as strollers are not allowed, and there is no storage space for them. To schedule a tour, contact the Department of State Tour Office at (202) 647-3241, fax (202) 736-4232, or TDD (202) 736-4474. Provide the following required information:

- name
- phone number (with area code)
- date and time of the tour requested
- the number of people attending

A member of the Tour Office staff will return all calls to confirm reservations. Plan to arrive at the 23rd Street entrance 30 minutes before the beginning of the tour. At this time, U.S. citizens will need to provide their SSN and date of birth and non-U.S. citizens, their passport numbers. Photographs of the rooms are permitted. ●

Please send your questions to consultation@state.gov, or write Consultations, Office of Foreign Missions, DS/OFM Room 2238, 2201 C Street NW, Washington DC 20520.

U.S. tax-exemption cards are non-transferable. OFM also reminds readers that U.S. tax-cards must be returned upon departure or expiration. ●

Faces of OFM

SHEILA CHESTNUT

Sheila Chestnut began her service at OFM in the Program Support Unit (PSU) on February 11, 1991. Over the course of the last nine years she has gained experience in the policy and issuance of driver licenses, vehicles, tax exemption and customs.

Always looking for better ways to work, Ms. Chestnut has offered many innovations to OFM. She was instrumental in developing several new tax policies, including assigning expiration dates on the tax-exemption cards and updating the tax users guide and handbook. She created a "Customs Drop Box" for quick delivery of Customs form DS-1504.

Ms. Chestnut developed a program to request extensions of customs privileges for administrative and technical staff throughout their tours-of-duty, which is proving to be very successful. She has also been instrumental in the development and implementation of a new training plan for PSU personnel, which helps to ensure top-notch service to OFM customers.

Ms. Chestnut says she has found her job to be very challenging and rewarding. She has been commended for many of her achievements, including a Directors Award of Excellence, several letters of commendation and an achievement award for excellence.

In addition to work, Ms. Chestnut is involved in many community activities. She spoke at her son's school, teaching the children about her role in diplomatic relations, and has received awards for her hard work and dedication in the Parents and Teacher Association (PTA) and the Reading is Fundamental organization.

Congratulations and thank you, Sheila. OFM is proud to have you as a member of our team. ●

REGIONAL DIRECTORS CORNER

TAX ISSUES REGARDING AUTO LEASES

Many foreign missions and their personnel posted in the United States are afforded tax exemption when they purchase an automobile. OFM's Diplomatic Motor Vehicle or Regional Offices will provide a letter or a phone call to confirm tax-exemption eligibility to the dealership. Gaining popularity is the option to lease a vehicle. Leasing a vehicle places the transaction in a different category from purchase. First, the vehicle does not become the property of the individual or mission; the dealer remains the owner. Second, OFM treats the vehicle as personal or mission owned for the purposes of registration and titling only. Since the dealer remains the owner, no tax exemption privilege can be passed along to the dealer from the foreign mission or the mission member.

Some individuals have been able to make an agreement before signing the contract to have the cost of the sales tax subtracted from the contract price. The dealer is under no obligation to absorb this cost since the tax is on the dealership and not on an individual or mission. Remember, this agreement must be made prior to signing the contract. Once signed, all parties to the contract are legally bound to its terms.

The simplest way to understand the lease vs. purchase difference is to determine the owner of the vehicle. If it is the dealership, and the individual is just using the vehicle for a specified time period, then taxes will be directly levied on the dealership not on an individual or mission. OFM cannot provide tax exemption for the dealer, only for a foreign mission or an accredited foreign mission member.

-The above was submitted by Chicago Regional Director Denise Dulcon.

Notice:

CHANGE IN POLICY REGARDING ISSUANCE OF SOCIAL SECURITY NUMBERS

The Social Security Administration (SSA) will no longer assign Social Security numbers (SSNs) for identification purposes only. SSNs will be issued only to U.S. citizens or to lawfully admitted aliens who have permission from the Immigration and Naturalization Service (INS) to work in the United States or receive benefits under federal programs.

Consequently, so called "non-working" SSNs will no longer be issued. However, many benefits and services can be obtained without an SSN. For example, SSNs may be requested but are not required to conduct business with a bank or financial institution, register for school, purchase savings bonds or report group health insurance.

For further information and clarification on SSN eligibility, please refer to the SSA Web site (www.ssa.gov) or call its 24-hour information line (800) 772-1213. ●

DEPARTMENT OF
HEALTH, EDUCATION, AND
SOCIAL SECURITY ADMINISTRATION

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The first U.S. income tax law was established in 1862.

The Supreme Court declared that law unconstitutional in 1895.

The 16th Amendment to the Constitution was passed to allow Congress to collect the tax in 1913.

Withholding tax on wages began in 1943.

There are currently three tax brackets in the U.S.; they are 15%, 28%, and 31%.

The collection of income taxes makes up 40% of the Federal Revenues.



PHONEBOOK

KEY PERSONNEL

Director of Diplomatic Motor Vehicle Program

(202) 895-3521
Jacqueline Robinson

Director of Duty-free Customs Entry and Tax Exemption

(202) 895-3563
Robert Hyams

Director of Office, Vehicles, Tax and Customs

(202) 895-3500
Richard Jaworski

Director of Property and Travel

(202) 647-4554
Richard Massey

Legal Counsel

(202) 895-3501
Ron Mlotek

Chicago Regional Office Director

Denise Duclon
(312) 353-5762

Honolulu Regional Office Director

(808) 522-8125
Nancy Finn

Los Angeles Regional Office Director

(310) 235-6292
Evan Press

New York Regional Office Director

(212) 826-4500
Jim Bond

San Francisco Regional Office Director

(415) 744 - 2910
Leroy Dal Porto

Protocol: Diplomatic and Consular Liaison

(202) 647-1985
Lawrence Dunham

Diplomatic Security Protective Liaison

(202) 647-7277
Director Johnny Guy

Visa Office: Diplomatic Liaison

(202)-663-3211

Are you a resident or nonresident alien?

The question of residency is fundamental to tax liability. If one is unsure of his or her exact status regarding residency it behooves them to inquire about the differences that exist. The IRS Web site (www.irs.gov) has a great deal of information that helps delineate between residents and nonresidents. Be prepared to answer questions such as the following:

- 1) Were you a lawful permanent resident of the United States (had a "green card") at any time during 1999?
- 2) Were you physically present in the United States at least 31 days during 1999?
- 3) Were you physically present in the United States on at least 183 days during the 3-year period consisting of 1997, 1998, and 1999, counting all days of presence in 1999, 1/3 the days of presence in 1998, and 1/6 the days of presence in 1997?
- 4) Do you still meet the 183-day test of the preceding question if you disregard days for which you were an exempt individual (student, teacher, diplomat, etc., as discussed under Exempt Individual)?
- 5) Were you physically present in the United States on at least 183 days during 1999?
- 6) Can you show that for 1999 you have a tax home in a foreign country and have a closer connection to that country than to the United States?

In some circumstances you may still be considered a nonresident alien under an income tax treaty between the U.S. and your country. Check the provisions of the treaty carefully.

These questions are directly from the IRS Web site located at www.irs.gov. This is the best source of information if you have further questions about filing taxes. ●

An ITIN is the answer. (continued from pg 1)

All persons listed on a return must have an SSN or ITIN, including spouses and dependents. A separate W-7 is required for each individual requesting an ITIN. It may be filled out for a dependent; however, a signature is required for all dependents over 14 years of age. Spouses must complete and sign their own forms. The return will not be processed until the appropriate number is obtained. If a claim is made for an exemption for any dependent listed without an ITIN or SSN, that exemption will be denied. Only residents of the U.S., Canada, Mexico, Japan and the Republic of Korea may claim exemptions for dependents on the same terms as U.S. citizens.

The IRS encourages all individuals in need of an ITIN to apply as soon as possible. Information regarding where and how to apply are in the instructions that accompany the W-7 form. ●

Coming Up in future issues

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consultations

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Editor-in-Chief: Theodore Strickler

QUESTIONS SHOULD BE ADDRESSED TO:

Editor: Kris Thompson

Phone: (202) 895-3517

Fax: (202) 895-3646

Email: Consultation@state.gov

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Office of Foreign Missions
DS/OFM Room 2238
2201 C Street NW
Washington DC 20520